

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Isabella County Transportation Commission	County Isabella
Fiscal Year End 9/30/07	Opinion Date 1/15/08	Date Audit Report Submitted to State 1/25/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Isabella County Transportation Commission
Mt. Pleasant, Michigan**

FINANCIAL STATEMENTS

September 30, 2007

Isabella County Transportation Commission

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Isabella County Transportation Commission
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the Isabella County Transportation Commission, a component unit of Isabella County, as of and for the year ended September 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Transportation Commission as of September 30, 2007, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008, on our consideration of the Isabella County Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Transportation Commission's basic financial statements. The accompanying other supplementary information, as identified in the Table of Contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Isabella County Transportation Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 15, 2008

Isabella County Transportation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The intent of the management's discussion and analysis is to provide highlights of the Commission's financial activities for the Fiscal Year ended September 30, 2007. Readers are encouraged to read this section in conjunction with the basic financial statements.

Using this Audit Report

This annual audit report consists of this management's discussion and analysis report, the independent audit's report, and the basic financial statements of the Commission, which include notes that explain in more detail some of the information in the financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of Isabella County Transportation Commission for the fiscal year October 1, 2006 to September 30, 2007.

Isabella County Transportation Commission as a Whole

Isabella County Transportation Commission's total net assets increased approximately 16% from a year ago - increasing from \$4,326,554 to \$5,027,415. In a condensed format, the table below shows a comparison of the net assets as of 9/30/07 to the prior year 9/30/06.

CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year <u>2007</u>	Fiscal Year <u>2006</u>
Current and Other Assets	\$ 1,695,533	\$ 1,085,874
Capital Assets, Net	<u>3,947,809</u>	<u>3,961,146</u>
Total Assets	5,643,342	5,047,020
Current Liabilities	475,613	328,751
Noncurrent Liabilities	<u>287,779</u>	<u>391,715</u>
Total Liabilities	<u>763,392</u>	<u>720,466</u>
Invested in Capital Assets		
Net of Related Debt	3,558,399	3,471,798
Unrestricted	<u>1,321,551</u>	<u>854,756</u>
Total Net Assets	<u>\$ 4,879,950</u>	<u>\$ 4,326,554</u>

Isabella County Transportation Commission Activities

Isabella County Transportation Commission's operating revenues increased approximately \$6,984. This was primarily due to an increase in ridership and contract activities. Nonoperating revenue increased by approximately \$699,549 reflecting the increase in our property tax millage. Operating expenses increased by \$1,199. Depreciation expense decreased approximately \$8,420 from 2006. As a result, the net increase in net assets after depreciation was \$553,396. In a condensed format, the table shows a comparison of the revenues and expenses for 2007 and 2006.

Isabella County Transportation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Isabella County Transportation Commission Activities - Continued

CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year 2007	Fiscal Year 2006
Operating Revenues	\$ 551,628	\$ 544,644
Nonoperating Revenues	<u>3,842,350</u>	<u>3,142,801</u>
Total Revenues	4,393,978	3,687,445
Depreciation Expense	610,273	618,693
Other Operating Expenses	3,217,004	3,128,203
Nonoperating Expenses	<u>13,305</u>	<u>21,118</u>
Total Expenses	<u>3,840,582</u>	<u>3,768,014</u>
Change in Net Assets	553,396	(80,569)
Beginning Net Assets	<u>4,326,554</u>	<u>4,407,123</u>
Ending Net Assets	<u>\$ 4,879,950</u>	<u>\$ 4,326,554</u>

Capital Assets

At the end of fiscal year 2007 Isabella County Transportation Commission had approximately \$7,567,771 in capital assets. This is an increase of \$284,588 from fiscal year 2006 due to the Commission's purchase of several new buses, and bus shelters.

Long-term Debt

At September 30, 2007, Isabella County Transportation Commission had a long-term debt balance of \$389,410. This loan has an interest rate of 4% and is payable in annual installments with the final payment due on April 18, 2011.

Economic Factors

The Isabella County Transportation Commission increased its ridership by 25% in FY 2007. We anticipate an additional increase in ridership in FY 2008. We expect expenses to increase approximately 15% as a result of providing additional service, mainly in the areas of fuel and health insurance costs. Isabella County Transportation Commission will continue to monitor the budget to keep these expenses as low as possible.

Contacting Isabella County Transportation Commission

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of Isabella County Transportation Commission's finances and to show Isabella County Transportation Commission's accountability for the money that it receives. If you have any questions about this audit, please contact Isabella County Transportation Commission.

BASIC FINANCIAL STATEMENTS

Isabella County Transportation Commission

STATEMENT OF NET ASSETS

September 30, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 1,244,049
Accounts receivable	31,154
Due from other governmental units	221,103
Land contract receivable - current portion	3,010
Interest receivable	14,759
Inventories	118,512
Prepays	<u>55,372</u>

Total current assets 1,687,959

Noncurrent assets

Land contract receivable	7,574
Capital assets not being depreciated	54,004
Capital assets, net of accumulated depreciation	<u>3,893,805</u>

Total noncurrent assets 3,955,383

TOTAL ASSETS 5,643,342

LIABILITIES

Current liabilities

Accounts payable	28,374
Accrued payroll	35,017
Compensated absences	68,937
Due to other governmental units	186,311
Accrued interest payable	9,086
Other accrued liabilities	5,440
Deferred revenue	40,817
Current portion of loan payable	<u>101,631</u>

Total current liabilities 475,613

Noncurrent liabilities

Loan payable	<u>287,779</u>
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TOTAL LIABILITIES 763,392

NET ASSETS

Invested in capital assets, net of related debt	3,558,399
Unrestricted	<u>1,321,551</u>

TOTAL NET ASSETS \$ 4,879,950

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

OPERATING REVENUES	
Sales and charges for services	\$ 551,628
OPERATING EXPENSES	
Administrative	484,817
Operations	3,012,926
Maintenance	<u>329,534</u>
TOTAL OPERATING EXPENSES	<u>3,827,277</u>
OPERATING LOSS	(3,275,649)
NONOPERATING REVENUES (EXPENSES)	
Taxes	1,214,378
Intergovernmental	
Federal sources	557,336
State sources	1,285,944
Local sources	135,798
Interest earnings	53,487
Interest expense on long-term debt	<u>(13,305)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,233,638</u>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(42,011)
CAPITAL GRANT REVENUE	
Federal sources	486,093
State sources	<u>109,314</u>
TOTAL CAPITAL GRANT REVENUE	<u>595,407</u>
CHANGE IN NET ASSETS	553,396
Net assets, beginning of year	<u>4,326,554</u>
Net assets, end of year	<u><u>\$ 4,879,950</u></u>

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 584,936
Cash paid to employees	(1,729,159)
Cash paid to suppliers	(1,271,776)
NET CASH USED BY OPERATING ACTIVITIES	(2,415,999)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes	1,214,378
Intergovernmental sources	
State and Federal grants	1,843,280
Local contributions	135,798
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,193,456
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State and Federal capital assistance	595,407
Payment received for land contract receivable	2,842
Purchase of capital assets	(597,450)
Loss on disposal of assets	514
Principal payment on long-term debt	(99,938)
Interest payment on long-term debt	(17,268)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(115,893)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	53,487
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	715,051
Cash and cash equivalents, beginning of year	528,998
Cash and cash equivalents, end of year	<u>\$ 1,244,049</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (3,275,649)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	610,273
Decrease in accounts receivable	31,273
Decrease in due from other governmental units	98,061
Decrease in due from employees	2,288
(Increase) in inventories	(4,642)
(Increase) in prepaids	(9,671)
(Increase) in interest receivable	(14,759)
(Decrease) in accounts payable	(3,135)
Increase in accrued wages	4,001
Increase in due to other governmental units	140,270
Increase in compensated absences	6,779
(Decrease) in other accrued liabilities	(3,123)
Increase in deferred revenue	2,035
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,415,999)</u>

See accompanying notes to financial statements.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Isabella County Transportation Commission (The Commission) is considered a component unit of Isabella County, Michigan for financial accounting and reporting purposes.

The Commission receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Commission provides demand response services within Isabella County. The Commission also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Isabella County Transportation Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Commission has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Isabella County Transportation Commission. The Commission is considered a "component unit" of the County of Isabella, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Commission in the County's Annual Financial Report. The Annual Financial Report of Isabella County, Michigan is available for public inspection at the Isabella County Courthouse.

2. Basis of Presentation

The accounts of the Commission are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Commission resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commission applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Commission has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Commission cash and cash equivalents accounts consist of deposits with the County Treasurer and other checking accounts. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	40 years
Vehicles	5-12 years
Furniture and equipment	5 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

9. Cost Allocations

The Isabella County Transportation Commission has eleven (11) cost allocation plans where the methodology has been approved by the BPT (Bureau of Passenger Transportation). Those cost allocations are for the separation of grant costs, administrative costs, charter service, gasoline charges, new services, rent costs, regional transportation service, CDL training costs, maintenance costs, project zero costs, and JARC (Job Access/Reverse Commute) costs. These cost allocation plans were adhered to in the preparation of the financial statements.

The Isabella County Transportation Commission allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

10. Explanation of Ineligible Expenses per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Commission is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of September 30, 2007, the carrying amounts of the Commission's deposits were \$766,440 and the bank balance was \$808,771, of which \$358,771 was insured by the FDIC. The balance of \$450,000 was uninsured and uncollateralized. The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$350 of imprest cash and \$477,259 in cash that is on deposit with the Isabella County Treasurer. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, the Commission did not have any investments that would be subject to rating.

Interest rate risk

The Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Commission's cash requirements.

Concentration of credit risk

The Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Commission will do business in accordance with Board approved policy.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2007, by grant type and year are as follows:

Federal Section 5311 Operating - FY 07	215,600
RTAP Grant	2,903
JARC - FY 07	<u>2,600</u>
Total	<u>\$ 221,103</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007
Capital assets not being depreciated				
Land	\$ 54,004	\$ -	\$ -	\$ 54,004
Capital assets being depreciated				
Buildings and improvements	2,784,633	-	-	2,784,633
Buses	3,462,405	375,986	(260,150)	3,578,241
Bus equipment	200,706	-	-	200,706
Route equipment	41,735	181,296	-	223,031
Office and garage equipment	725,628	40,168	(52,712)	713,084
Office furniture	<u>14,072</u>	<u>-</u>	<u>-</u>	<u>14,072</u>
Subtotal	7,229,179	597,450	(312,862)	7,513,767
Less accumulated depreciation for:				
Buildings and improvements	(774,511)	(139,232)	-	(913,743)
Buses	(1,840,772)	(335,997)	260,149	(1,916,620)
Bus equipment	(192,728)	(7,978)	-	(200,706)
Route equipment	(659)	(21,388)	-	(22,047)
Office and garage equipment	(505,980)	(104,271)	52,199	(558,052)
Office furniture	<u>(7,387)</u>	<u>(1,407)</u>	<u>-</u>	<u>(8,794)</u>
Total accumulated depreciation	<u>(3,322,037)</u>	<u>(610,273)</u>	<u>312,348</u>	<u>(3,619,962)</u>
Net capital assets being depreciated	<u>3,907,142</u>	<u>(12,823)</u>	<u>(514)</u>	<u>3,893,805</u>
Net Capital Assets	<u>\$ 3,961,146</u>	<u>\$(12,823)</u>	<u>\$(514)</u>	<u>\$ 3,947,809</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Commission disposed of assets that were Federally and State funded with a historical cost of \$70,189. The assets disposed were fully depreciated. Depreciation expense in the amount of \$610,273 was reported for the year ended September 30, 2007.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Commission for the year ended September 30, 2007:

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007	Amount Due Within One Year
MDOT loan payable	\$ 489,348	\$ -0-	\$ 99,938	\$ 389,410	\$ 101,631

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$1,100,000 MDOT State Infrastructure Bank Loan dated April 18, 2000, due in annual installments of \$75,047 to \$117,207 through April 18, 2011, with interest of 4.00 percent, payable annually. \$ 389,410

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

Year Ending September 30,	Principal	Interest
2008	\$ 101,631	\$ 15,576
2009	105,696	11,511
2010	109,924	7,283
2011	72,159	2,887
	<u>\$ 389,410</u>	<u>\$ 37,257</u>

NOTE F: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave in excess of the amounts allowed by respective union and contractual agreements is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation at September 30, 2007, will be paid from current financial resources and is recorded as a current liability in the amount of \$68,937.

NOTE G: PROPERTY TAX REVENUES

The Isabella County Transportation Commission property tax is levied in December on the State Equalized Valuation of property located in the County of Isabella as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.410 billion representing 50% of estimated current market value. In August 2004, the Isabella County Transportation Commission's tax rate of 1.00 mills was renewed for three (3) years, expiring in December 2007. For the year ended September 30, 2007, the Isabella County Transportation Commission levied .90 mills.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE H: DEFERRED COMPENSATION PLAN

Isabella County Transportation Commission offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

The Administrators are agents of Isabella County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Commission's financial statements.

NOTE I: RETIREMENT PLAN

Plan Description

The Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., salary) employees of the Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 2.5% of their annual salary to the retirement system. The Commission is required to contribute 7% of the annual salaries of covered employees to fund the system.

Annual Pension Cost

For year ended September 30, 2007, the Commission's annual pension cost of \$30,754 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	As of Feb. 1, 2004	As of December 31, 2005	2006
Actuarial value of assets	\$ -	\$ 726,413	\$ 831,028
Actuarial accrued liability (AAL) (entry age)	913,236	1,088,110	1,212,086
Unfunded AAL	913,236	361,697	381,058
Funded ratio	0 %	67 %	69 %
Covered payroll	462,991	456,406	438,777
UAAL as a percentage of covered payroll	197 %	79 %	87 %

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE I: RETIREMENT PLAN - CONTINUED

	Year Ended September 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 25,986	\$ 32,304	\$ 30,754
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the MERS actuarial reports as of February 1, 2004 and December 31, 2005, and 2006.

NOTE J: RISK MANAGEMENT

The Commission carries commercial insurance for the risk of loss due to workers' compensation claims.

The Commission is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities. This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Commission.

The Commission pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Commission receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Commission and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Commission upon notification.

The Commission also participates in a pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Commission has not been informed of any special assessments being required.

NOTE K: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

OTHER SUPPLEMENTARY INFORMATION

Isabella County Transportation Commission

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2007

Passenger fares	\$ 289,971
Contract fares	261,657
Property taxes	1,214,378
Advertising	12,615
Interest	53,487
Reimbursements	27,978
Sale of maintenance services	28,080
Gain on sale of assets	15,580
Other	<u>51,545</u>
TOTAL LOCAL REVENUES	<u><u>\$ 1,955,291</u></u>

Isabella County Transportation Commission
EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended September 30, 2007

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation Federal Transit Capital Grants ^(a)	20.500							
Capital Grant - Section 5309 (80/20)		2002-0053/Z15	\$ 364,418	\$ 361,694	\$ 289,355	\$ 72,339	\$ -	\$ 2,724
Capital Grant - Section 5309 (80/20)		2002-0053/Z3	280,921	144,540	115,632	28,908	-	136,381
Formula Grants for Other than Urbanized Areas ^(a)	20.509							
Operating Assistance - Section 5311 (FY07)		2007-0235/Z2	604,028	538,395	538,395	-	-	65,633
Capital Assistance - Section 5311 (80/20)		2002-0053/Z7	199,750	40,337	32,270	8,067	31,300	128,113
Capital Assistance - Section 5311 (100/0)		2002-0053/Z14	31,000	27,304	27,304	-	3,575	121
Capital Assistance - Section 5311 (87/13)		2002-0053/Z17	98,000	20,096	20,096	-	8,506	69,398
Capital Assistance - Section 5311 (100/0)		2002-0053/Z14	31,000	1,436	1,436	-	-	29,564
Rural Transit Assistance Program (RTAP)		N/A	3,341	3,341	3,341	-	-	-0-
Job Access Reverse Commute (50/50)	20.516	2007-0235/Z1	31,200	31,200	15,600	15,600	-	-0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Nonurban		N/A	1,372,240	1,223,106	-	1,223,106	-	149,134
Prior year reconciliations - FY05 ^(b)		N/A	N/A	89,980	-	89,980	-	-0-
TOTALS			\$ 3,015,898	\$ 2,481,429	\$ 1,043,429	\$ 1,438,000	\$ 43,381	\$ 581,068

^(a) Denotes major program.

^(b) The total State revenue on the Statement of Revenues, Expenses, and Changes in Fund Net Asset is \$1,395,258.
The total State Revenue on the Expenditures of Federal and State Awards is \$1,438,000. The difference between
the State revenue amounts is \$42,742, which was 2005 revenue that was recorded as a receivable and revenue in the prior year.

Isabella County Transportation Commission

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2007

	Nonurban	Job Access	Total
Labor	\$1,724,468	\$ 17,759	\$ 1,742,227
Payroll taxes and fringe benefits	734,360	8,354	742,714
Professional services	52,322	517	52,839
Materials and supplies	449,677	4,028	453,705
Utilities	69,654	872	70,526
Insurance	97,084	1,124	98,208
Taxes and fees	10,095	15	10,110
Leases and rentals	6,514	68	6,582
Miscellaneous expenses	39,741	352	40,093
Interest on long-term debt	12,986	319	13,305
Depreciation	610,273	-	610,273
TOTAL EXPENSES	<u>\$3,807,174</u>	<u>\$ 33,408</u>	<u>\$ 3,840,582</u>

Isabella County Transportation Commission

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2007

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 289,971
40200	Contract fares	261,657
406	Auxiliary transportation revenue	
40615	Advertising	12,615
407	Nontransportation revenue	
40710	Sales of maintenance services	28,080
40760	Gain on sale of assets	15,580
40799	Other nontransportation revenue	45,518
408	Local revenue	
40800	Tax levy	1,214,378
409	Local revenue	
40999	Insurance reimbursement	27,978
40999	Other local contracts and reimbursements	827
411	State formula and contracts	
41101	State operating assistance	1,270,344
413	Federal contracts	
41301	Federal section 5311	538,395
41398	RTAP	3,341
414	Other revenue	
41400	Interest Income	53,487
	TOTAL NONURBAN SERVICE REVENUE	\$ 3,762,171

Isabella County Transportation Commission

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 1,189,309	\$ -	\$ -	\$ 1,189,309
50102	Other salaries and wages	-	149,574	172,826	322,400
50103	Dispatchers' salaries and wages	212,759	-	-	212,759
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	567,096	58,488	78,366	703,950
50201	Pensions	14,857	4,355	11,198	30,410
503	Services				
50302	Advertising	-	-	10,901	10,901
50305	Audit	-	-	6,983	6,983
50399	Professional services	10,194	11,880	12,364	34,438
504	Materials and supplies				
50401	Fuel and lubricants	283,255	-	-	283,255
50402	Tires and tubes	-	1,402	-	1,402
50499	Other materials and supplies	95,973	60,219	8,828	165,020
505	Utilities				
50500	Utilities	-	-	69,654	69,654
506	Insurance				
50603	Liability Insurance	97,084	-	-	97,084
507	Taxes and fees				
50700	Taxes and fees	-	-	10,095	10,095
509	Miscellaneous expenses				
50902	Travel, meetings and training	4,599	-	6,047	10,646
50903	Association dues and subscriptions	266	-	12,528	12,794
50909	Loss on disposal of assets	-	-	514	514
50999	Other miscellaneous	1,392	859	13,536	15,787
511	Interest				
51101	Interest on long-term debt	-	-	12,986	12,986
512	Operating leases and rentals				
51200	Operating leases and rentals	4,388	265	1,861	6,514
513	Depreciation				
51300	Depreciation	506,002	39,427	64,844	610,273

Isabella County Transportation Commission

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT - CONTINUED

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
550	Less ineligible expenses				
55006	Interest	\$ -	\$ -	\$ 12,986	\$ 12,986
55007	Depreciation	426,583	31,418	61,312	519,313
55008	Other	-	-	30,417	30,417
55010	Expenses related to auxiliary and nontransportation revenue	45,839	-	-	45,839
560	Less ineligible expenses				
56001	Expenses related to the sale of maintenance service	-	27,737	-	27,737
574	Less ineligible expenses				
57402	RTAP	-	-	3,341	3,341
580	Less ineligible expenses				
58009	Loss on disposal of assets	-	-	514	514
Total expenses					3,807,174
Total ineligible expenses					640,147
Total eligible expenses					<u>\$ 3,167,027</u>

Isabella County Transportation Commission

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	833,873	82,153	43,970	959,996

⁽¹⁾ The methodology used for compiling vehicle mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

OAR SCHEDULE 4R
JARC SERVICE REVENUE REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Amount</u>
407	Nontransportation revenue	
40799	Other nontransportation revenue	\$ 5,200
411	State formula and contracts	
41199	Other state contracts and reimbursements	15,600
413	Federal contracts	
41399	Other federal contacts and reimbursements	<u>15,600</u>
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 36,400</u>

Isabella County Transportation Commission

OAR SCHEDULE 4E
JARC SERVICE EXPENSE REPORT

Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 12,049	\$ -	\$ -	\$ 12,049
50102	Other salaries and wages	-	1,627	1,729	3,356
50103	Dispatchers' salaries and wages	2,354	-	-	2,354
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	6,446	652	912	8,010
50201	Pensions	170	49	125	344
503	Services				
50302	Advertising	-	-	60	60
50305	Audit	-	-	117	117
50399	Professional services	110	119	111	340
504	Materials and supplies				
50401	Fuel and lubricants	2,473	58	-	2,531
50402	Tires and tubes	1	11	-	12
50499	Other materials and supplies	913	494	78	1,485
505	Utilities				
50500	Utilities	-	-	872	872
506	Insurance				
50603	Liability insurance	1,124	-	-	1,124
507	Taxes and fees				
50700	Taxes and fees	-	-	15	15
509	Miscellaneous expenses				
50902	Travel, meeting and training	62	-	65	127
50903	Association dues and subscriptions	4	-	101	105
50999	Other miscellaneous	2	50	68	120
511	Interest				
51101	Interest on long-term debt	-	-	319	319
512	Operating leases and rentals				
51200	Operating leases and rentals	44	5	19	68

Isabella County Transportation Commission

OAR SCHEDULE 4E
JARC SERVICE EXPENSE REPORT - CONTINUED

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Administrative</u>	<u>Total</u>
550	Less ineligible expenses				
55006	Interest	\$ -	\$ -	\$ 319	\$ 319
55010	Expenses related to auxiliary and nontransportation revenue	636	-	-	636
560	Less ineligible expenses				
56001	Expenses related to the sale of maintenance service	-	343	-	343
Total expenses					33,408
Total ineligible expenses					<u>1,298</u>
Total eligible expenses					<u>\$ 32,110</u>

Isabella County Transportation Commission

OAR SCHEDULE 4N
JARC SERVICE NONFINANCIAL REPORT

Year Ended September 30, 2007

<u>Code</u>	<u>Description</u>	<u>Weekday</u>
611	Vehicle Miles ⁽¹⁾	9,839

⁽¹⁾ The methodology used for compiling vehicle mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

OPERATING ASSISTANCE CALCULATION

Year Ended September 30, 2007

	Nonurban	JARC
Total expenses	\$ 3,807,174	\$ 33,408
Less ineligible expenses		
Interest	12,986	319
Depreciation	519,313	-
Other	30,417	-
Expenses related to auxiliary and nontransportation revenue	45,839	636
Expenses related to sale of maintenance service	27,737	343
RTAP	3,341	-
Loss on disposal of assets	514	-
Total ineligible expenses per R&E manual	640,147	1,298
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 3,167,027	\$ 32,110
Eligible expenses for State reimbursement	\$ 3,167,027	\$ 32,110
x Reimbursement percentage (JARC not to exceed \$15,600)	0.3862	0.5000
State operating assistance	\$ 1,223,106	\$ 15,600
Eligible expenses for Federal reimbursement	\$ 3,167,027	\$ 32,110
x Reimbursement percentage (JARC not to exceed \$15,600)	0.1700	0.5000
Federal operating assistance	\$ 538,395	\$ 15,600

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Isabella County Transportation Commission
Mt. Pleasant, Michigan

We have audited the financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2007, and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above at 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Isabella County Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Isabella County Transportation Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Isabella County Transportation Commission's response, and accordingly we express no opinion on it.

This report is intended for the information of management and the Board of Directors of the Isabella County Transportation Commission, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 15, 2008

Principals

Dale J. Abraham, CPA
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Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Isabella County Transportation Commission
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of the Isabella County Transportation Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2007. The Isabella County Transportation Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Isabella County Transportation Commission's management. Our responsibility is to express an opinion on the Isabella County Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Isabella County Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Isabella County Transportation Commission's compliance with those requirements.

In our opinion, the Isabella County Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Isabella County Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Isabella County Transportation Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the Board of Directors of the Isabella County Transportation Commission, others within the entity, the Federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 15, 2008

Isabella County Transportation Commission
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other than Urbanized Areas
20.500	Federal Transit - Capital Investment Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for revenue and receivables related to federal grants. These misstatements were not detected by the Commission's internal control over financial reporting.

Isabella County Transportation Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

Section II - Financial Statement Findings - continued

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Commission's internal controls.

Recommendation: We recommend that the Commission take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We are planning to hire a local CPA firm to review year end closing and adjusting entries for FY 2008 and to advise us if further adjustments are necessary.

Section III - Federal Award Findings and Questioned Costs

None

Isabella County Transportation Commission
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2007

There were no findings disclosed for the past two years.